



Volume 9. Two Germanies, 1961-1989

Chancellor Helmut Kohl Celebrates the Success of the Social Market Economy
(October 25, 1989)

Chancellor Helmut Kohl delivered this speech on the 40th anniversary of the introduction of the Social Market Economy. He attributed the system's historic successes to its combination of competition and solidarity. He defended the economic policies of his own administration and called for further reforms in order to return to the basic principles of the Social Market Economy.

Federal Chancellor Helmut Kohl: Forty Years of the Social Market Economy in the Federal Republic of Germany

I.

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Ladies and gentlemen, the last forty years have shown that our free and socially-responsible economic order is able to take on and meet new challenges like no other. This is because the Social Market Economy is an open and future-oriented economic system in which people have the freedom to develop and thrive.

For Ludwig Erhard, the idea of the Social Market Economy was not a static concept. He regarded it as a task that could never be fully completed. He left us this as a legacy, as a mandate, as a perpetual challenge.

II.

In view of the success of the Social Market Economy, we've almost forgotten today how difficult it was forty years ago for Ludwig Erhard to promote his ideas in our country and then to implement them too. At the time, the decision in favor of economic and monetary reform was hotly contested. Therefore, it should be emphasized today: Erhard's great political achievement was not allowing himself to be dissuaded from his path, despite all of the hostility and challenges he faced. With great courage and confidence, he implemented the decision for the Social Market Economy against the prevailing zeitgeist.

Ludwig Erhard's path proved to be the correct one. For what happened in the 1950s and 1960s was the economic rise of the Federal Republic of Germany; it caught the attention of the world and came to be known as the "German economic miracle." It was a rise from misery and destruction to a place among the world's leading national economies.

What was described as an "economic miracle" was in fact no miracle at all. It was brought about, on the one hand, through wise assistance, especially from the United States, and on the other, through correct fundamental political decisions, and – certainly most importantly – through the will of our people, despite our devastated country, to say "yes" to the future.

Today, I wish for the same optimism in life, for the faith in our own strength that brought about the so-called economic miracle back then. Because our country is worthy of love. It is a country worth standing up for. And therefore we need to find our way back to this underlying mood of optimism.

There was also a time, however, when the achievements of the postwar period had become such a matter of course that the regulatory foundations of our economic and social order were almost forgotten.

Why – we must ask when looking back on the 1970s – wasn't our society more successful in managing the oil crises and structural change and in preventing the emergence of lasting high unemployment? How was it possible that so many people who considered themselves the "more social" democrats so persistently underestimated the dire effects of inflation on economic growth and employment? Part of the answer is the sobering realization that the state cannot, in fact, control business cycles and the economy to the extent that some people had claimed.

Against this backdrop, the economic crisis at the beginning of the 1980s brought about at least two things: on the one hand, it forced us to become more modest in our expectations of what state economic policy can directly achieve beyond shaping the basic conditions [of the economic environment]. On the other hand, it hastened a return to that which had already proven successful in a perilous situation once before – namely, resolute policy in the spirit of Ludwig Erhard. In concrete terms, that means:

- Monetary stability as a priority
- Sound public finances
- Performance before redistribution
- Prosperity for all: that is, for employers and employees, and
- The protection of our environment, which is much more urgent today than it was forty years ago

III.

The tangible results of this policy since 1982 have again proven the effectiveness of the Social Market Economy.

– We are now seeing the longest and most stable upward economic trend in the postwar period. In real terms, the gross national product in 1989 will be about twenty percent higher than it was in 1982. And the upswing will continue in 1990, that is, for the eighth year in a row. The leading economic research institutes also assume this in their most recent forecasts.

– More than 1.25 million new jobs have been created since unemployment peaked in 1983. That means: at 27.8 million we have never had as many jobs as we do today.

– Unemployment is declining, despite the fact that the labor supply has skyrocketed.

– And with this in mind, it is particularly encouraging for the future that business profits and investments are at a record high. For they form the basis for tomorrow's jobs and for a continued upward trend in employment.

– The competitive position of our businesses on the world market has improved substantially. The German economy today exports more than any other country in the world.

All of this underscores that we have a successful concept. Therefore, our answer to the challenges of the future can only be: to continue developing the regulatory framework of the Social Market Economy and, above all, to strengthen the awareness of the need for individual responsibility.

The federal government is pursuing this policy in order to prepare our economy for the challenges of the future. To this end, and in the interest of the people, it is willing to accept the sometimes vigorous resistance that comes from large interest groups.

Our comprehensive package of measures includes health-care reform, pension reform, and postal reform, as well as a three-step tax reform.

With regard to health-care reform, there are certainly some points of contention. What is important, however, is that we were able to stop cost increases for the first time in years, and that an awareness of expenditures is starting to develop again.

Many have taken only casual note of the structural reform of the postal system. But this long overdue deregulation represents the right path for the future.

With regard to pension reform, foreseeable demographic trends forced us to make some difficult decisions. Thus, I'm all the more pleased that we were able to reach a compromise between the major democratic parties on this central socio-political issue.

On January 1 of the coming year, the third stage of the tax reform will take effect. The tax cuts represent a very important decision, not least with respect to making the Federal Republic of Germany a more attractive place for business and industry. We need not shy away from a comparison with reforms in other countries. I certainly would have liked to include corporate taxes in the package, but it wasn't politically feasible. Therefore we will make a decision about this reform shortly after the Bundestag elections. Our businesses must be guaranteed equal opportunity in the European Community, especially in light of the introduction of the Single European Market in 1992.

This program of reforms – the most comprehensive one ever passed in the Federal Republic within such a tight time frame – has without a doubt forced our citizens to give up entitlements that they had grown fond of. We are concerned, however, not only with today, but also with the continued prosperity of the Federal Republic and its future as a place for business and industry. It is by no means the case that everything will automatically remain as good as it is now.

It must also be clear: the government does not carry sole responsibility for safeguarding the future. Industry and society are equally responsible. We are, and remain, mutually dependent upon one another.

Unions and management decide on wages and working conditions and thereby significantly influence employment and jobs. Through their balanced approach to wage policy in recent years, the collective bargaining partners have greatly contributed to the success of our economy and the improvement of the situation on the labor market. The rapid rise in employment and the increasing number of available positions mean that most of today's unemployed have a real chance of finding a job again.

Employers and unions should do everything they can to keep it this way. And in light of the wage policy decisions that still lay before us, I appeal to unions and management to be mindful of their great responsibility for further economic development. In other words: among all the things to consider, we should never forget what our internationally competitive economy is capable of achieving.

This applies especially to the labor market, where significant problems persist. We cannot and will not accept the fact that one in three job-seekers has been unemployed for over a year. Additional efforts are necessary. I would like large companies, in particular, to do more than they've done up to now to give the long-term unemployed genuine assistance in re-entering the workforce. The federal government has made wage-cost subsidies of up to eighty percent available just for this purpose.

Just as pressing is the need for jobs for the many ethnic German remigrants [*Aussiedler*] and East German resettlers [*Übersiedler*] who are coming to us with great hopes and expectations. I would greatly welcome it if unions and management would make effective contributions to the specific solution of these problems. If nothing else they have a social responsibility to do so. And one core element of Erhard's philosophy is that we must always count on those active in economic life to be willing to take responsibility.

What we need on the labor market – but not only there – is this: greater flexibility, imagination, and a balanced approach.

[. . .]

VI.

Ladies and gentlemen, it has become obvious, not only in the area of environmental protection, that our options for national [i.e. unilateral] measures are limited today and that international cooperation is far more promising. Our country has inextricable economic and political ties to other countries, especially, of course, to our partners in the European Community.

It therefore lies in our own best interest to cooperate better and pull even closer together, especially within the European Community. Let me begin with a few fundamental statements: for us Germans it has always been clear that the goal is the political unification of Europe. The large Single European Market, which will be completed on December 31, 1992, is an important goal, but it is only a stop on the way to [a united] Europe.

Furthermore: I have never equated the twelve member states of the European Community (EC) with Europe. We Germans know better than anyone that Europe is much more than just the EC. Of course, Hungary and Poland are just as much a part of Europe. Just think of those striking images from Budapest: the People's Republic was declared a thing of the past and the Republic of Hungary was proclaimed. And at that moment a banner with the inscription "Hungary has returned home to Europe" was raised before hundreds of thousands of people. That says it all.

Ladies and gentlemen, this much is clear: the reform movement, the collapse of real existing socialism only came about because the West was united in NATO and because the European integration process exercised such a strong force of attraction. It is no coincidence that President Gorbachev speaks of the common House of Europe.

Because it is sometimes forgotten even in Brussels, let me emphasize it once more here: we signed up for the whole of Europe. We want to complete the Europe of the EC, but with the gates open to others. It is a political unification of Europe. Therefore, I will by no means be satisfied with a process that stops after 1992.

We have to seize this opportunity right now. The first nine decades of this century have passed and many of those decades were filled with endless suffering, hardship, and death. We still have ten years to change the story of this century for the better – for the benefit of our country, for peace and freedom, for prosperity, for a responsible and happy life for each individual.

These days, some of our neighbors are asking: are the Germans still reliable partners? All I can say is that sitting on the fence and wavering back and forth brought us Germans nothing but misery. We know whose side we're on. We're part of the Western community of values. And it will stay that way.

[. . .]

VIII.

Freedom is without a doubt a basic need of all people and no one can withhold it from them for long. This is obvious from the galvanizing events of the past days and weeks in the other part of Germany.

Right now, no one knows how things will continue to develop in the GDR. But one thing is for sure, and that is that these events will have far-reaching historic consequences. It is all the more imperative for us to act with wisdom and caution and not to patronize our compatriots in the GDR.

We can only hope that the change in leadership and the recent discussions that have reached the very top of the SED are true signs of a change of heart. What's important now is a true dialogue with the citizenry, political and economic reforms that truly speak to the concerns and anxieties of the people.

The federal government is prepared to offer comprehensive support for effective reforms. Our goal is to improve the living conditions in the GDR in such a way that the people feel comfortable in their ancestral homeland and want to stay there.

But as long as people leave the GDR because they lack the opportunity to shape their own lives there, we will, of course, take them in. With me, there will be no departure from uniform German citizenship – as some people here supported until very recently. We will not exclude anyone!

We will also leave no doubt that we are holding fast to the unity of the nation, that our goal remains freedom and self-determination for all Germans.

[. . .]

X.

Ladies and gentlemen, the Federal Republic of Germany was founded on the desire for freedom. This desire had a decisive influence on the last four decades of our country. Freedom, which also comes with responsibility! The two go together – in private life, in society, and also in the relationship of our people with other countries.

Today the desire for freedom around the world is stronger than ever before. This gives me confidence that the liberal principles of our economic and social order belong to the future.

Source of original German text: Helmut Kohl, "Forty Years of Social Market Economy in the Federal Republic of Germany" ["40 Jahre Soziale Marktwirtschaft in der Bundesrepublik Deutschland"], in *Bulletin* (Press and Information Office of the Federal Government), no. 115, October 30, 1989, pp. 985-90.

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